



1972 ANNUAL REPORT





### **Corporate Information**

#### **HEAD OFFICE**

300 - 9th Avenue S.W.  
Calgary, Alberta

#### **FIELD OFFICES**

Post Office Box 330  
Drayton Valley, Alberta

Post Office Box 579  
Redcliff, Alberta

#### **TRANSFER AGENT AND REGISTRAR**

Montreal Trust Company  
Calgary, Alberta

#### **BANKERS**

The Royal Bank of Canada  
Calgary, Alberta

#### **SOLICITORS**

Saucier, Jones, Black,  
Gain, Stratton & Laycraft  
Calgary, Alberta

#### **AUDITORS**

Peat, Marwick, Mitchell & Co.  
Calgary, Alberta

### **Directors**

E. W. COSTELLO  
Calgary, Alberta

W. G. GRAY  
Calgary, Alberta

F. P. MANNIX  
Calgary, Alberta

J. A. McDONALD  
Calgary, Alberta

B. L. MONTGOMERY  
Calgary, Alberta

A. D. NESBITT  
Montreal, Quebec

R. J. WHITE  
Calgary, Alberta

### **Officers and Key Personnel**

E. W. COSTELLO  
Chairman of the Board

R. J. WHITE  
President

R. N. SANDERS  
General Manager

T. PARKS  
Manager Oil & Gas Division

G. E. BROWN  
Manager Pipe Line Division

G. E. THOMPSON  
Controller & Ass't. Treasurer

A. V. COMEAU  
Secretary

J. T. WOOD  
Treasurer

W. G. GRAY  
Assistant Secretary

**18th  
Annual Report  
1972**

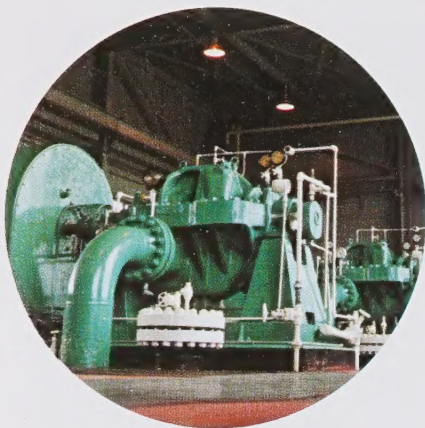


**Financial and  
Operating Highlights**

Twelve Month Period  
ending December 31

|                            |                                               | <u>1972</u>   | <u>1971</u> |
|----------------------------|-----------------------------------------------|---------------|-------------|
| <b>Financial</b>           | Gross Revenue . . .                           | \$ 13,465,359 | 13,702,936  |
|                            | Net Funds from                                |               |             |
|                            | Operations . . .                              | 6,126,064     | 7,825,291   |
|                            | per share . . .                               | 69.7¢         | 90.9¢       |
|                            | Net Income . . .                              | 2,233,084     | 3,252,273   |
|                            | per share . . .                               | 23.0¢         | 35.9¢       |
|                            | Capital Expenditures                          | 4,663,334     | 7,492,989   |
| <br>                       |                                               |               |             |
| <b>Pipe Line Operation</b> |                                               |               |             |
|                            | Deliveries - barrels<br>per day . . . . .     | 157,241       | 164,937     |
| <br>                       |                                               |               |             |
| <b>Net Production</b>      |                                               |               |             |
|                            | Crude Oil & Gas                               |               |             |
|                            | Liquids - barrels . .                         | 990,459       | 951,525     |
|                            | Natural Gas Sales -<br>thousand cubic feet    | 7,892,054     | 7,690,376   |
|                            | Oil & Equivalent Gas -<br>barrels per day . . | 3,784         | 3,660       |
| <br>                       |                                               |               |             |
| <b>Land</b>                |                                               |               |             |
|                            | Gross - acres . . . .                         | 4,461,635     | 3,359,023   |
|                            | Net - acres . . . . .                         | 1,359,278     | 1,169,304   |
| <br>                       |                                               |               |             |
| <b>Wells Drilled</b>       |                                               |               |             |
|                            | Gross . . . . .                               | 81            | 68          |
|                            | Net . . . . .                                 | 15.1          | 11.8        |





## Report of the Directors

### To The Shareholders

This report covers the eighteenth year of operations of Pembina Pipe Line Ltd.

Gross revenue for the period under review was \$13,465,359 — down slightly from \$13,702,936 for the previous year. Net funds from operations amounted to \$6,126,064 compared with \$7,825,291 recorded in 1971. Exploration, non productive drilling and abandonments increased to \$2,945,796 compared with \$2,104,319 in 1971. This increase combined with lower pipe line throughputs constitute the principal causes of the reduction in net income from \$3,252,273 in 1971 to \$2,233,084 in 1972.

Oil and natural gas production during 1972 were relatively unchanged from 1971; oil increased to 2,714 barrels per day from 2,607 in 1971 while natural gas also showed a small gain from 21.1 to 21.6 million cubic feet per day. Pipe line throughputs, however, exhibited a 4.7% decline to average 157,241 barrels per day in 1972 compared to 164,937 in 1971. This decline occurred in spite of rising demands for Alberta crude oil production and is expected to continue unless crude oil prices rise sufficiently to allow producers in the Pembina field

to justify the expenditures necessary to arrest this trend.

In late 1972 your company joined the Gas Arctic-Northwest Project Study Group, a twenty-five company consortium investigating the feasibility of building a large diameter gas pipe line to carry Alaskan and Canadian gas from Prudhoe Bay and the Mackenzie Delta to southern Canada and the lower forty-eight states of the United States. The Study Group has been assembling information as the basis for applications to be filed with government authorities in late 1973.

The Company's exploratory program in 1972 was the most extensive ever undertaken by Pembina. While no major discoveries resulted, some of the larger projects are not yet completed. Specifically, the Company is participating currently in two wells in the Arctic on Axel Heiberg Island — Mokka and Depot Point. In the northern Yukon, east of the Village of Old Crow, one well (Porcupine YT F-72) is underway and a second is planned for the current winter season.

The remaining exploratory work took place in British Columbia, Alberta and Saskatchewan. Appreciable gas reserves were discovered at Laprise and Rigel in British Columbia and Beaverlodge and Crossfield in Alberta.

The prospect of more reasonable prices for oil and gas brightened appreciably in 1972. A 10c per barrel increase in the price of crude in late 1972 was followed by a further 20c in early 1973. Partially offsetting this increase, Alberta, Saskatchewan and British Columbia have all recently announced increases in oil royalties. From a fairly consistent 15% to 16 2/3% maximum

royalty, these three provinces have proposed increasing the maximums to 25%, 25% and 40%, respectively. The effect of the higher prices will more than compensate for higher royalties so that our oil production revenue will be increased.

The market for natural gas has improved considerably following the announcement by the Alberta Government of its belief that natural gas is substantially underpriced. However, the near term benefit to industry is being eroded through increased revenue demands by Provincial Governments. It is difficult at this time to forecast future natural gas revenues since Provincial policies are incomplete. The Alberta Government has suggested its rebate system will be made known in 1973. This is of particular importance to Pembina in view of the major volumes of gas committed to markets within the Province. Saskatchewan recently increased gas royalty from 0.8c to 2.0c per Mcf but have not yet stated whether sales for export will be authorized or whether all gas must be sold to Saskatchewan Power Corporation. The British Columbia Government has suggested that gas prices will increase but that none of the added revenue will accrue to the producers.

Your Directors wish to express their sincere and grateful appreciation to the employees for their efforts and loyalty during the past year. Without such support our company could not hope to succeed.

ON BEHALF OF

THE BOARD OF DIRECTORS

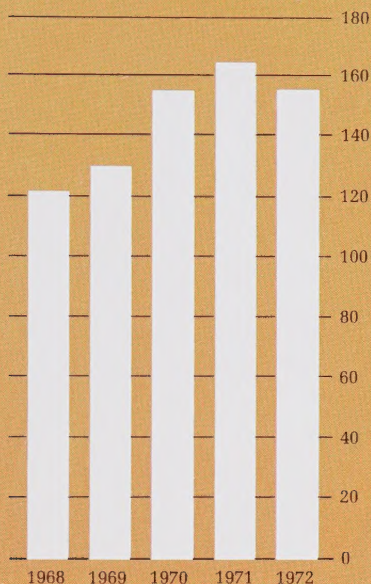
*R. White*  
President

Calgary, Alberta  
March 9, 1973



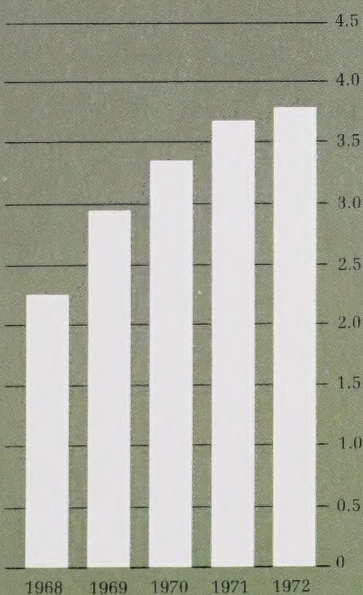
## AVERAGE PIPE LINE DELIVERIES

Thousands of barrels/day



## PRODUCTION

Oil and gas equivalent  
Thousands of barrels/day



## PIPE LINE DIVISION

### Operations

Although the demand for Alberta crude oil continued to increase in 1972 some of the pools in the Pembina area, having achieved peak productive capability, entered an era of declining production. As a consequence, average daily throughputs via our system during 1972 were 157,241 barrels, a reduction of 4.7% from the 164,937 barrels per day average transported during 1971. This decline is expected to continue although the rate of decline may be mitigated by improvements in producers' facilities under the impetus of recent increases in crude oil prices.

Comparable receipts of crude oil by field are as follows:

| Field        | 1972              | 1971              |
|--------------|-------------------|-------------------|
| (Barrels)    |                   |                   |
| Pembina      | 51,538,000        | 54,645,000        |
| Willesden    |                   |                   |
| Green        | 3,954,000         | 3,571,000         |
| Bigoray      | 271,000           | 196,000           |
| Cyn Pem      | 646,000           | 510,000           |
| Edson        | 146,000           | 209,000           |
| Niton        | 392,000           | 338,000           |
| Brazeau      |                   |                   |
| (condensate) | 410,000           | 405,000           |
| Nordeg       |                   |                   |
| (condensate) | 192,000           | 195,000           |
| Peco         | 58,000            | 66,000            |
|              | <u>57,507,000</u> | <u>60,135,000</u> |

## OIL AND GAS DIVISION

### Production

Crude oil production during 1972 averaged 2,714 barrels per day as compared to 2,607 barrels per day for the previous year.

Natural gas production averaged 21.62 million cubic feet per day in 1972, up slightly from the 1971 average of 21.07 million cubic feet per day.

Production of oil and gas over the past two years is summarized below. All figures are net of royalties.

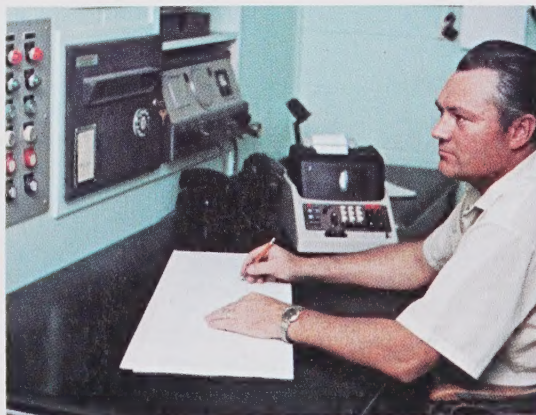
| Oil              | 1972           | 1971           |
|------------------|----------------|----------------|
| (Barrels)        |                |                |
| Alberta          | 650,541        | 643,683        |
| Saskatchewan     | 226,073        | 209,945        |
| British Columbia | 113,845        | 97,897         |
|                  | <u>990,459</u> | <u>951,525</u> |

### Gas

(Thousands of Cubic Feet)

|                  |                  |                  |
|------------------|------------------|------------------|
| Alberta          | 7,559,428        | 7,356,651        |
| British Columbia | 332,626          | 333,725          |
|                  | <u>7,892,054</u> | <u>7,690,376</u> |

Total average daily production of crude oil combined with net equivalent barrels of gas amounted to 3,784 barrels per day in 1972 as compared to 3,660 barrels per day for the 1971 calendar year.





## Exploration

In line with increased activity in the north we have accelerated our exploration program in this area. Not to forego the near term benefits to be gained through exploration in the more southern areas, we have continued our programs in British Columbia, Alberta and Saskatchewan.

### British Columbia

Two 100% owned wells in the Laprise and Rigel areas were successful gas discoveries. Additional work is programmed for both areas. Although a follow-up well to last year's gas discovery in the Cache Creek area was unsuccessful, geological and seismic evaluations of lands adjacent to the discovery block are being conducted. An exploratory well in the Pocketknife area (Home et al Minaker a-83-J) on lands in which Pembina holds a one-third interest is currently drilling.

### Alberta

Your company participated in a total of ten exploratory wells in widely separated plays in this province. Successful gas wells were completed in the Boundary Lake South and Crossfield areas. Significant reserves of natural gas were found in the Beaverlodge area but mechanical difficulties forced suspension of the well. An abandoned test in the Moberly Creek area earned an interest in over 70,000 acres.

### Saskatchewan

Three exploratory wells in which Pembina participated in the Butte-Illerbrun area during 1972 have been abandoned. Drilling by others in the Midale-Hartaven area has indicated an oil bearing section which may extend onto Pembina lands.





**Yukon Territory**

Following a major seismic program on the Bell River block, Pembina will be a one-third participant in two exploratory tests on these lands this winter. The first well (Westcoast et al N. Porcupine YT F-72) is now underway.

**Northwest Territories**

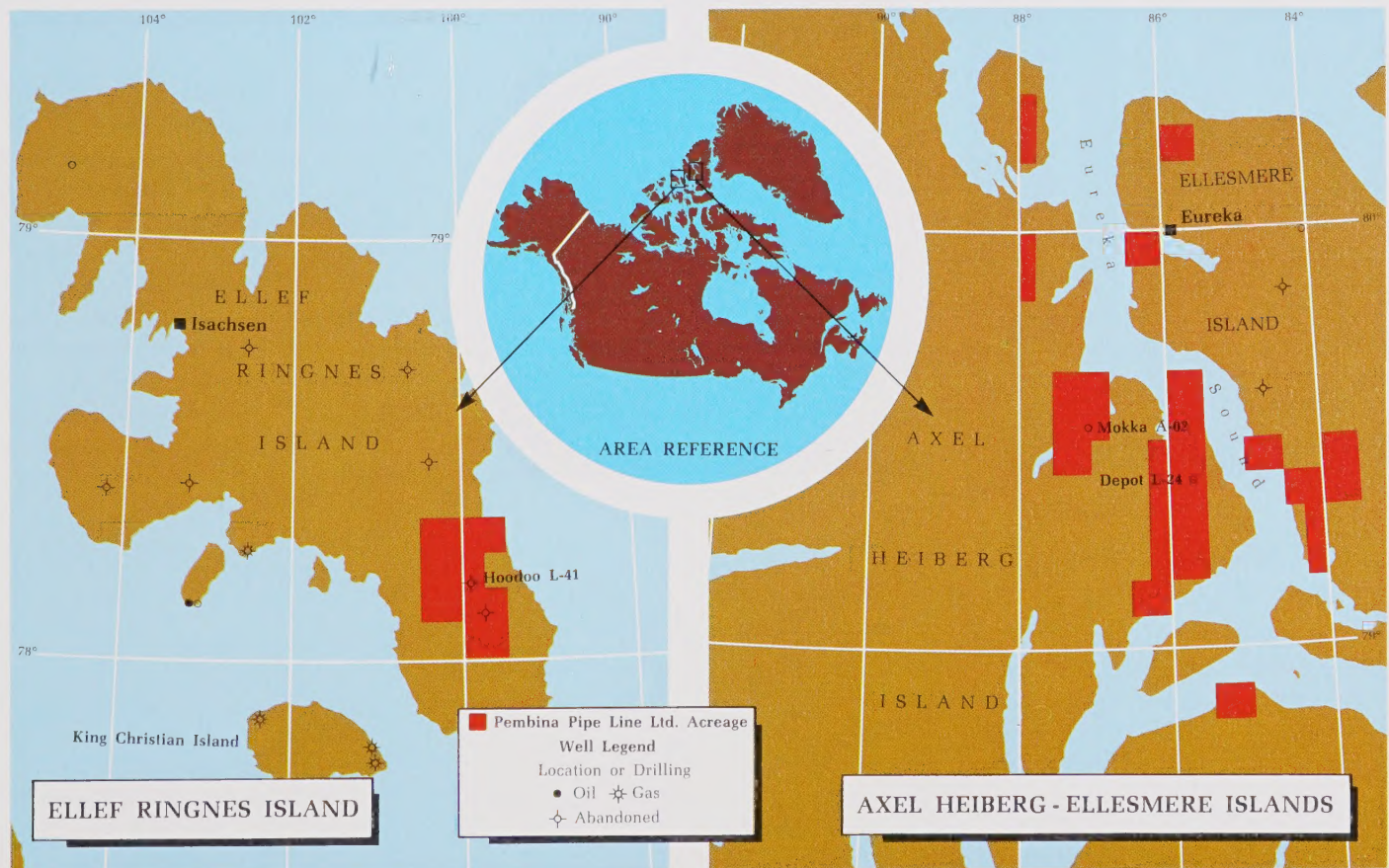
A seismic program planned for the Eskimo Lakes permits in 1972 is now underway and will be completed this winter.

**Arctic Islands**

Pembina has participated in two tests which have been abandoned — Devon E-45 and Hoodoo L-41. Currently the Company is a 10% participant in two wells on Axel Heiberg Island — Mokka A-02 and Depot L-24. Both are on prominent structural features. Participation in a seismic project on the Skraeling structure north of the Mokka well has earned us an option to participate in subsequent drilling. Geological investigations are proceeding on possible drill sites on the southern end of this island and on Amund Ringnes Island.



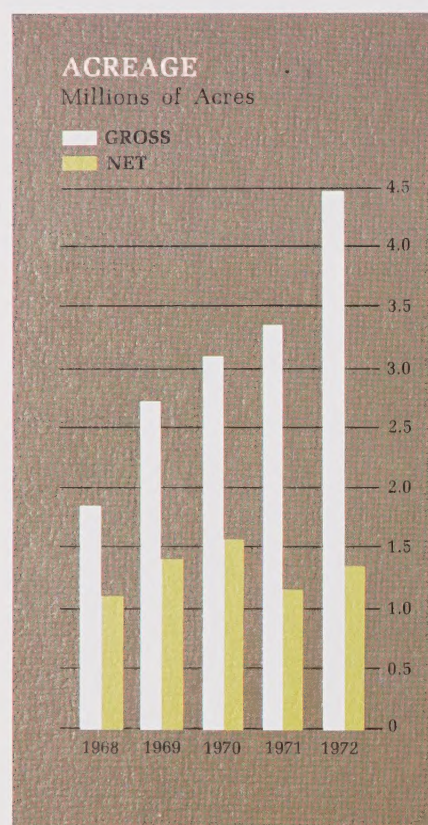
*Typical Mackenzie Delta terrain.*





## Land

During 1972 gross acres increased by 1,102,612 acres to 4,461,635; net acres increased by 189,974 to 1,359,278. The newly acquired lands are located in British Columbia, Alberta, Saskatchewan and the Arctic Islands. Acquisitions in the Provinces were mainly through purchase while in the Arctic Islands they were made through drilling participation. Northwest Territories and Yukon acreage remained the same as in 1971.



## Drilling

During 1972 your company participated in the drilling of 59 development and 22 exploratory wells. Five of the exploratory wells were drilled on farmout lands at no cost to the Company.

Of the 59 development wells drilled 42 were completed as oil wells, 11 as gas wells and 6 were abandoned. Six of the exploratory wells were completed as gas wells with the remaining 16 wells abandoned. Drilling success was 30% for exploratory

ventures and 90% for development.

### Summary of Wells Drilled in 1972

|                    | Oil | Gas | Dry | Total |
|--------------------|-----|-----|-----|-------|
| <b>Exploratory</b> |     |     |     |       |
| Gross .....        | 0   | 6   | 16  | 22    |
| Net .....          | 0   | 2.4 | 5.1 | 7.5   |
| <b>Development</b> |     |     |     |       |
| Gross .....        | 42  | 11  | 6   | 59    |
| Net .....          | 1.6 | 4.8 | 1.2 | 7.6   |
| <b>Totals</b>      |     |     |     |       |
| Gross .....        | 42  | 17  | 22  | 81    |
| Net .....          | 1.6 | 7.2 | 6.3 | 15.1  |

## FINANCIAL

Your company purchased a royalty interest in a unit in the Swan Hills area late in 1972. This purchase, when combined with the funds from the sublease purchased last year, will provide a substantial increase in the funds generated by the Company in the next year, however, the effect on net income will not be significant.

Effective August 15, 1972 the company redeemed all its outstanding bonds and debentures. All of the outstanding First Preferred Shares were also redeemed. With the retirement of the First Preferred Shares we are obliged to retire 10,000 Series "A" Second Preferred Shares or set aside equivalent funds by April 1st of each year until all the Second Preferred Shares are retired.

### Summary of Acreage

|                        | 1972             |                  | 1971             |                  |
|------------------------|------------------|------------------|------------------|------------------|
|                        | Gross            | Net              | Gross            | Net              |
| Alberta .....          | 1,222,828        | 404,980          | 837,815          | 324,773          |
| Saskatchewan .....     | 208,582          | 89,766           | 95,784           | 30,696           |
| British Columbia ..... | 972,849          | 367,828          | 867,630          | 340,415          |
| N.W.T. & Yukon .....   | 896,904          | 341,242          | 896,904          | 341,242          |
| Arctic Islands .....   | 1,160,472        | 155,462          | 660,890          | 132,178          |
|                        | <u>4,461,635</u> | <u>1,359,278</u> | <u>3,359,023</u> | <u>1,169,304</u> |



## Consolidated Statement of Income

Year Ended December 31, 1972 (with comparative figures for 1971)

|                                                                 | <u>1972</u>         | (Unaudited)<br><u>1971</u> |
|-----------------------------------------------------------------|---------------------|----------------------------|
| Revenue:                                                        |                     |                            |
| Revenue from operations . . . . .                               | \$ 13,360,683       | 13,646,323                 |
| Income from investments . . . . .                               | 104,676             | 56,613                     |
|                                                                 | <u>13,465,359</u>   | <u>13,702,936</u>          |
| Expenses:                                                       |                     |                            |
| Operating . . . . .                                             | 3,452,520           | 3,522,159                  |
| Exploration, non productive drilling and abandonments . . . . . | 2,945,796           | 2,104,319                  |
| Interest and discount on long term debt . . . . .               | 654,992             | 480,248                    |
| Other interest, net . . . . .                                   | (97,985)            | 84,451                     |
| Amortization of goodwill . . . . .                              | 25,927              | 26,696                     |
| Depreciation and depletion . . . . .                            | 2,859,387           | 2,817,790                  |
|                                                                 | <u>9,840,637</u>    | <u>9,035,663</u>           |
| Net income before the following . . . . .                       | 3,624,722           | 4,667,273                  |
| Provision for current year's income taxes . . . . .             | 485,638             | —                          |
| Provision for future years' income taxes (Note 3) . . . . .     | 906,000             | 1,415,000                  |
|                                                                 | <u>1,391,638</u>    | <u>1,415,000</u>           |
| Net income . . . . .                                            | <u>\$ 2,233,084</u> | <u>3,252,273</u>           |
| Net income per common share . . . . .                           | <u>23.0¢</u>        | <u>35.9¢</u>               |

See accompanying notes to financial statements.

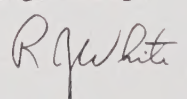


## Consolidated Balance Sheet

As at December 31, 1972 (with comparative figures for 1971)

| Assets                                                                               | 1972                 | 1971              |
|--------------------------------------------------------------------------------------|----------------------|-------------------|
| FIXED ASSETS, AT COST:                                                               |                      |                   |
| Investment in carrier property, land,<br>leases, wells and other equipment . . . . . | \$ 76,364,324        | 73,640,267        |
| Less accumulated depreciation, depletion and amortization . . . . .                  | <u>23,941,583</u>    | <u>21,155,636</u> |
|                                                                                      | 52,422,741           | 52,484,631        |
| Operating oil supply . . . . .                                                       | <u>577,151</u>       | <u>577,151</u>    |
|                                                                                      | <u>52,999,892</u>    | <u>53,061,782</u> |
| INVESTMENTS, AT COST:                                                                |                      |                   |
| Bonds and shares of other companies . . . . .                                        | <u>221,119</u>       | <u>243,619</u>    |
| CURRENT ASSETS:                                                                      |                      |                   |
| Cash . . . . .                                                                       | 39,563               | 65,414            |
| Short term deposit receipts, at cost . . . . .                                       | —                    | 950,000           |
| Accounts receivable:                                                                 |                      |                   |
| Trade accounts . . . . .                                                             | 1,491,160            | 1,228,148         |
| Other . . . . .                                                                      | 207,840              | 242,056           |
| Funds held by trustee for redemption of<br>Series "A" debentures . . . . .           | —                    | 170,500           |
| Funds held by trustee — other . . . . .                                              | —                    | 2,001             |
| Materials and supplies, at cost . . . . .                                            | 25,087               | 24,911            |
| Deposits and prepaid expenses . . . . .                                              | <u>86,941</u>        | <u>77,506</u>     |
|                                                                                      | <u>1,850,591</u>     | <u>2,760,536</u>  |
| OTHER:                                                                               |                      |                   |
| Gas Arctic - Northwest Project Study Group . . . . .                                 | 989,437              | —                 |
| Goodwill and other intangibles,<br>less amounts written off . . . . .                | <u>388,044</u>       | <u>420,120</u>    |
|                                                                                      | <u>1,377,481</u>     | <u>420,120</u>    |
|                                                                                      | <u>\$ 56,449,083</u> | <u>56,486,057</u> |

Approved on behalf of the Board:

 Director  
 , Director



| <b>Liabilities</b>                                                                                                          | <b><u>1972</u></b>   | <b><u>1971</u></b> |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------|
| LONG TERM DEBT:                                                                                                             |                      |                    |
| Funded debt less current maturities (Note 1) . . . . .                                                                      | \$ —                 | 1,056,500          |
| Production loans less current portion (Note 2) . . . . .                                                                    | 7,791,500            | 8,769,200          |
|                                                                                                                             | <u>7,791,500</u>     | <u>9,825,700</u>   |
| CURRENT LIABILITIES:                                                                                                        |                      |                    |
| Accounts payable and accrued charges . . . . .                                                                              | 1,044,069            | 1,101,735          |
| Interest accrued on funded debt . . . . .                                                                                   | —                    | 13,568             |
| Sinking fund payments due within one year,<br>less bonds, debentures, and preferred<br>shares held by the company . . . . . | 300,000              | 635,950            |
| Current income taxes payable . . . . .                                                                                      | 485,638              | —                  |
| Production loan payments due within one year . . . . .                                                                      | 1,000,000            | 1,000,000          |
|                                                                                                                             | <u>2,829,707</u>     | <u>2,751,253</u>   |
| DEFERRED TAXES ON INCOME (Note 3) . . . . .                                                                                 | <u>2,049,000</u>     | <u>1,143,000</u>   |
| <b>Shareholders' Equity</b>                                                                                                 |                      |                    |
| CAPITAL STOCK:                                                                                                              |                      |                    |
| First Preferred Shares (Note 4) . . . . .                                                                                   | —                    | 600,000            |
| Second Preferred Shares (Note 5) . . . . .                                                                                  | 4,995,090            | 4,995,090          |
| Common Shares:                                                                                                              |                      |                    |
| Class "A" non-voting shares of a par value of \$4.15 each                                                                   |                      |                    |
| Authorized: 12,000,000 shares                                                                                               |                      |                    |
| Issued: 6,660,128 shares . . . . .                                                                                          | 27,639,531           | 27,639,531         |
| Class "B" voting shares of a par value of \$4.15 each                                                                       |                      |                    |
| Authorized: 4,000,000 shares                                                                                                |                      |                    |
| Issued: 1,665,032 shares . . . . .                                                                                          | 6,909,883            | 6,909,883          |
|                                                                                                                             | <u>39,544,504</u>    | <u>40,144,504</u>  |
| CAPITAL REDEMPTION RESERVE FUND . . . . .                                                                                   | 850,000              | 125,000            |
| RETAINED EARNINGS . . . . .                                                                                                 | 3,384,372            | 2,496,600          |
|                                                                                                                             | <u>43,778,876</u>    | <u>42,766,104</u>  |
|                                                                                                                             | <u>\$ 56,449,083</u> | <u>56,486,057</u>  |

See accompanying notes to financial statements.



## Consolidated Statement of Source and Application of Funds

Year Ended December 31, 1972 (with comparative figures for 1971)

|                                                                                                                                                                | <u>1972</u>         | (Unaudited)<br><u>1971</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------------------|
| SOURCE OF FUNDS:                                                                                                                                               |                     |                            |
| Funds derived from current operations before charges for depreciation, depletion, amortization, abandonments and provision for deferred income taxes . . . . . | \$ 6,126,064        | 7,825,291                  |
| Production loan less amount shown as current liability . . . . .                                                                                               | —                   | 6,282,327                  |
| Production payment from producing properties . . . . .                                                                                                         | 1,770,320           | —                          |
| Other items . . . . .                                                                                                                                          | 22,500              | —                          |
|                                                                                                                                                                | <u>7,918,884</u>    | <u>14,107,618</u>          |
| APPLICATION OF FUNDS:                                                                                                                                          |                     |                            |
| Net additions to carrier property, land, leases, wells and other equipment . . . . .                                                                           | 4,663,334           | 7,492,989                  |
| Expenditures as a Participant in Gas Arctic - Northwest Project Study Group . . . . .                                                                          | 989,437             | —                          |
| Sinking fund payments . . . . .                                                                                                                                | 1,956,500           | 650,000                    |
| Production loan payments . . . . .                                                                                                                             | 977,700             | 1,052,600                  |
| Dividends on first preferred shares . . . . .                                                                                                                  | 20,607              | 35,145                     |
| Dividends on Series "A" second preferred shares . . . . .                                                                                                      | 299,705             | 224,779                    |
| Taxes paid under Section 105(2) of the Income Tax Act . . . . .                                                                                                | —                   | 187,909                    |
| Taxes paid under Section 105C of the Income Tax Act . . . . .                                                                                                  | —                   | 799,497                    |
| Other items . . . . .                                                                                                                                          | —                   | 35,339                     |
|                                                                                                                                                                | <u>8,907,283</u>    | <u>10,478,258</u>          |
| Increase (decrease) in working capital . . . . .                                                                                                               | <u>\$ (988,399)</u> | <u>3,629,360</u>           |
| Working capital surplus (deficit) . . . . .                                                                                                                    | <u>\$ (979,116)</u> | <u>9,283</u>               |

See accompanying notes to financial statements.



## **Consolidated Statement of Retained Earnings**

**Year Ended December 31, 1972**

|                                                                                                  |                            |
|--------------------------------------------------------------------------------------------------|----------------------------|
| Balance January 1, 1972 . . . . .                                                                | \$ 2,496,600               |
| Add net income for the year . . . . .                                                            | <u>2,233,084</u>           |
|                                                                                                  | <u>4,729,684</u>           |
| Deduct:                                                                                          |                            |
| Dividends paid on 5% cumulative<br>redeemable First Preferred Shares . . . . .                   | 20,607                     |
| Dividends paid on 6% cumulative<br>redeemable Series "A" Second<br>Preferred Shares . . . . .    | 299,705                    |
| Transfer to capital redemption reserve<br>fund re redemption of First Preferred Shares . . . . . | 725,000                    |
| Appropriation for redemption of Series "A" Second Preferred Shares . . . . .                     | <u>300,000</u>             |
|                                                                                                  | <u>1,345,312</u>           |
| Balance December 31, 1972 . . . . .                                                              | <u><u>\$ 3,384,372</u></u> |

See accompanying notes to financial statements.

## **Auditors' Report To The Shareholders**

We have examined the consolidated balance sheet of Pembina Pipe Line Ltd. and its subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

*Peat, Marwick, Mitchell & Co.*

Chartered Accountants

Calgary, Alberta  
February 27, 1973



## Notes to Financial Statements

December 31, 1972

### 1. FUNDED DEBT

The Company redeemed all its outstanding Debentures and First Mortgage Bonds on August 15, 1972.

### 2. PRODUCTION LOANS

Production loans consist of bank loans in the amount of \$8,791,500 which mature in 1981. The required payments in each of the next five years are \$1,000,000. These loans are secured by certain of the Company's interests in petroleum and natural gas properties and an assignment of the interest in the gas purchase contracts applicable to the pledged natural gas interests.

### 3. INCOME TAXES

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and tax depreciation in amounts which may exceed the related provisions reflected in the accounts. As at the date of amalgamation March 31, 1971, the Company did not have any drilling, exploration and lease acquisition costs remaining to be carried forward and applied against future taxable income and the undepreciated capital cost of the depreciable assets was \$15,829,000. Tax deferrals for all timing differences between taxable income and reported income since that date have been treated in the accounts as a charge against income and a credit to deferred taxes on income.

### 4. FIRST PREFERRED SHARES

The Company redeemed 14,500 shares in 1972, which represented all its outstanding First Preferred Shares, for \$720,554.

### 5. SECOND PREFERRED SHARES

Second Preferred Shares of a  
par value of \$30 each  
Authorized: 1,100,000 shares  
Issued and outstanding: 166,503  
6% cumulative redeemable  
Series "A" Second Preferred  
Shares . . . . . \$ 4,995,090

The Company is required to set aside as a sinking fund, not later than April 1st of each year, a sum sufficient to retire \$300,000 par value of the Series "A" Second Preferred Shares in each year until they have been retired. The Company may, upon giving thirty days notice, redeem at any time the whole or any part of the Series "A" Second Preferred Shares at the par value.

### 6. BASIS OF CONSOLIDATION

Included in the consolidated statements are the accounts of all subsidiary companies, each of which is wholly owned.

### 7. COMPARATIVE STATEMENTS

The unaudited comparative statements of income and source and application of funds include the operations of the Company for the nine months ended December 31, 1971 and the operations of the predecessor Companies for the three months ended March 31, 1971.

### 8. REMUNERATION OF DIRECTORS AND OFFICERS

The remuneration paid to Directors and Senior Officers of the Companies for the year ended December 31, 1972 was \$203,364.



## Ten Year Review

|                                                                            | <u>1972*</u> | <u>1971*</u> | <u>1970*</u> | <u>1969</u> | <u>1968</u> | <u>1967</u> | <u>1966</u> | <u>1965</u> | <u>1964</u> | <u>1963</u> |
|----------------------------------------------------------------------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Financial</b>                                                           |              |              |              |             |             |             |             |             |             |             |
| <i>(in thousands of dollars)</i>                                           |              |              |              |             |             |             |             |             |             |             |
| Gross revenue .....                                                        | \$ 13,465    | 13,703       | 12,208       | 10,146      | 8,950       | 8,109       | 7,478       | 7,455       | 7,073       | 6,290       |
| Net flow of funds<br>from operations ..                                    | \$ 6,126     | 7,825        | 7,529        | 6,348       | 5,837       | 5,373       | 4,666       | 4,842       | 4,808       | 3,055       |
| per common<br>share** .....                                                | \$ .70       | .91          | .87          | 3.78        | 3.47        | 3.19        | 2.76        | 2.94        | 2.94        | 1.85        |
| Net income*** .....                                                        | \$ 2,233     | 3,252        | 3,143        | 2,518       | 1,735       | 1,478       | 1,428       | 1,472       | 1,544       | 1,370       |
| per common<br>share** .....                                                | \$ .23       | .36          | .34          | 1.48        | 1.01        | .85         | .82         | .86         | .91         | .80         |
| Capital expenditures                                                       | \$ 4,663     | 7,493        | 7,774        | 3,034       | 9,867       | 3,452       | 3,540       | 5,465       | 4,307       | 1,389       |
| Investment in fixed<br>assets at year end<br>— at cost .....               | \$ 78,716    | 74,217       | 67,142       | 59,349      | 56,475      | 47,767      | 45,121      | 41,694      | 36,345      | 32,223      |
| Long term debt less<br>current maturities<br>at year end .....             | \$ 7,792     | 9,826        | 5,121        | 6,787       | 9,041       | 7,091       | 8,776       | 10,047      | 9,308       | 9,574       |
| <b>Operations</b>                                                          |              |              |              |             |             |             |             |             |             |             |
| <b>Pipe Line:</b>                                                          |              |              |              |             |             |             |             |             |             |             |
| Average deliveries—<br>barrels per day ...                                 | 157,241      | 164,937      | 155,469      | 130,590     | 120,970     | 117,120     | 114,430     | 118,270     | 120,850     | 116,740     |
| Miles of line<br>built in year .....                                       | —            | 10           | 50           | 54          | 6           | 4           | 12          | 39          | 37          | 32          |
| Miles of line<br>at year end .....                                         | 1,045        | 1,045        | 1,035        | 985         | 931         | 925         | 921         | 909         | 870         | 833         |
| <b>Oil and Gas:</b>                                                        |              |              |              |             |             |             |             |             |             |             |
| Net Production—<br>Crude oil and<br>natural gas liquids<br>— barrels ..... | 990,459      | 951,525      | 964,053      | 825,700     | 591,900     | 300,000     | 201,300     | 122,100     | 14,000      |             |
| Natural gas sales—<br>billion cubic feet .                                 | 7.89         | 7.69         | 4.96         | 4.62        | 4.43        | 4.50        | 3.61        | 3.28        | 1.30        |             |
| Oil and equivalent<br>gas — barrels<br>per day .....                       | 3,784        | 3,660        | 3,321        | 2,895       | 2,228       | 1,438       | 1,046       | 783         | 217         |             |
| Acreage at year end:                                                       |              |              |              |             |             |             |             |             |             |             |
| Gross—acres .....                                                          | 4,461,635    | 3,359,023    | 3,106,737    | 2,736,709   | 1,868,979   | 1,470,659   | 1,153,146   | 927,811     | 1,364,603   | 1,318,453   |
| Net—acres .....                                                            | 1,359,278    | 1,169,304    | 1,571,307    | 1,418,608   | 1,117,371   | 1,173,432   | 892,979     | 819,957     | 1,033,740   | 1,017,578   |
| Wells drilled—gross                                                        | 81           | 68           | 50           | 53          | 34          | 13          | 15          | 15          |             |             |
| Wells net at year<br>end:                                                  |              |              |              |             |             |             |             |             |             |             |
| Oil .....                                                                  | 65           | 64           | 62           | 59          | 55          | 30          | 23          | 17          | 10          |             |
| Gas .....                                                                  | 72           | 63           | 58           | 53          | 51          | 49          | 46          | 39          | 8           | 6           |

\* The information provided for 1970 and subsequent years is based on twelve months ending December 31, whereas the information pertaining to 1969 and prior years is based on a twelve month period ending November 30.

\*\* The net income and net flow of funds from operations per common share for 1970 and subsequent years are based on the share capital outstanding after giving effect to the amalgamation at March 31, 1971.

\*\*\*In 1968 a change was made in the method of accounting for deferred income tax credits.





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